

CHAPTER 1

MARGINAL TAX RATES

REDUCE MARGINAL TAX RATES

General Explanation

Chapter 1.01

Current Law

The amount of tax imposed on taxable income in excess of the zero bracket amount of individuals varies from a minimum rate of 11 percent to a maximum rate of 50 percent. There are different rate schedules for four classes of taxpayers: (1) married individuals filing jointly and certain surviving spouses (14 tax rates); (2) heads of households (14 tax rates); (3) single individuals (15 tax rates); and (4) married individuals filing separately (14 tax rates). Beginning next year (1985), the progression of the rates for each class of taxpayers will be adjusted annually for inflation as measured by the Consumer Price Index.

Reasons for Change

The accumulation of tax exclusions and deductions over the years has substantially eroded the tax base, forcing higher rates of tax on nonexcluded income. High marginal tax rates create disincentives for saving, investing, and working. These in turn constrict economic growth and productivity.

The Treasury Department proposals would expand the base of income by eliminating many current deductions and exclusions unrelated to the proper measurement of taxable income. This expanded base permits a significant reduction in marginal tax rates without impairing Federal income tax revenues.

Proposal

The current 14 tax rates (15 for single taxpayers) would be replaced by three rates -- 15, 25, and 35 percent as shown on Table 1.

Effective Date

The proposal would be effective on July 1, 1986.

Analysis

The proposal would reduce individual tax liabilities an average of 8.5 percent; marginal tax rates on economic income would be 20 percent lower than under current law. The percentage reduction in taxes is greater at the bottom of the income scale, due to the increase in the

tax threshold. Tax liabilities of families with incomes below \$10,000 would fall by an average of 32.5 percent and the reduction in taxes for families with incomes of \$10,000 to \$15,000 would be 16.6 percent.

Proposed Tax Rates for 1986
Taxable Income Covered by the Tax Rate 1/

Head of Tax Rate	Married Filing Single Returns	Joint Returns	Household Returns	Separately Returns
0%	Less than \$2,800	Less than \$3,800	Less than \$3,500	Less than \$1,900
15%	\$2,800 to \$19,300	\$3,800 to \$31,800	\$3,500 to \$25,000	\$1,900 to \$15,900
25%	\$19,300 to \$38,100	\$31,800 to \$63,800	\$25,000 to \$48,000	\$15,900 to \$31,900
35%	\$38,100 and over	\$63,800 and over	\$48,000 and over	\$31,900 and over
Office of the Secretary of the Treasury Office of Tax Analysis				November 30, 1984

1/ Taxable income is equal to adjusted gross income less \$2,000 for each exemption for a taxpayer or dependent.